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¶1. (U) Summary. This is Volume 8, issue 49 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Concern as Chinese Clothing Quotas Expire
- Tax Reforms Help South Africa's Rankings in a Global Study
- Factories Hit Historic Low as Recession Bites
- Parliament Passes Competition Amendment Act, Consumer Protection and Companies Bills
- SACU Meets to Discuss EPA
- Freight Transport Threatened By Looming Strikes
- World Cup Fuel Demands
- GM South Africa Believes Low-Level of Tariffs under ADPD Will Threaten Industry
- COSATU Affiliates Urged to "Invest in ESKOM"
- Xstrata-Merafe and Other Ferrochrome Producers Close More Furnaces
- EIA for the Wild Coast Toll Road Released for Comment

End Summary.

Concern as Chinese Clothing Quotas Expire

¶2. (U) The quotas on Chinese clothing and textile imports are due to expire at the end of the month, but the industry is gripped by uncertainty on whether an 11th-hour extension will be made through a bilateral agreement with the Chinese government. A two-year bilateral agreement that came into effect in January 2007 is the basis of the current quota scheme. If the term of the agreement is not extended, the quotas will expire unless one of the stakeholders makes a formal application to the International Trade Administration Commission (ITAC). South African Clothing and Textile Workers' Union General Secretary Ebrahim Patel said the union would strongly support an extension because the quotas have been "very helpful" and saved thousands of jobs. He warned it would be "an absolute disaster" if there were a huge surge in cheap Chinese clothing and textile imports early in 2009. He estimated that cheap Chinese imports had resulted in the loss of more than 80,000 clothing jobs and more than 20,000 textile jobs before the quotas were introduced. Patel conceded that China's need to increase its exports in the context of an economic slowdown might make it reluctant to extend

the quota scheme. However, he said Chinese clothing exports to South Africa were only 0.5% of its total global exports, whereas they made up about 62% of South Africa's total clothing imports. (Business Day, December 4, 2008)

Tax Reforms Help South Africa's Rankings
in a Global Study

¶3. (U) South Africa is ranked 23rd out of 181 economies in terms of ease of paying taxes, reports an international study released by the World Bank. The World Bank's Doing Business 2009 annual report rates 181 economies on key business regulations and reforms. South Africa's ranking is a "significant improvement," remarked PriceWaterhouseCoopers Tax Director Charles de Wet, given that South Africa moved up from a ranking of 61st in the World Bank's Paying Taxes 2008 report and is now in the top quartile of all economies. South Africa's high ranking is attributable to steps taken by the National Treasury and the South African Revenue Service (SARS) to implement electronic filing for taxpayers. International Finance Qimplement electronic filing for taxpayers. International Finance Corporation (IFC) Doing Business Team official Caroline Otonglo observed that South Africa has also abolished two taxes for businesses, regional services levies and the retirement fund tax. Otonglo also noted that the time taken for companies to be tax compliant has been reduced and "For businesses it's not just the tax rates that matter. The administrative processes also count." South Africa was also ranked as the third easiest country in which to obtain credit. The study measured legal rights of borrowers and lenders, including the scope and quality of credit information systems. South Africa was ranked ninth for its laws in protecting investors. The country's laws were cited as an inspiration for other economies. South Africa's worst ranking was 147th out of 181 in the "trading across borders" category. The number of days required for imports and exports far exceeded those for the Asia or South America regions. (Business Day, November 28 and December 2,

2008)

Factories Hit Historic Low as Recession Bites

¶4. (U) South Africa's factories have put in their worst performance in nine years. The global recession and waning consumer demand have hammered the manufacturing sector, which accounts for 16% of South Africa's GDP and 14% of its formal jobs. Manufacturing output in South Africa shrank 6.9% in the third quarter of this year, its steepest fall in 17 years. The Investec purchasing managers' index (PMI), an economic indicator of factory production, plunged from 46.4 in October to 39.5 in November. Investec Asset Management Portfolio Manager Mokgatla Madisha noted "the manufacturing sector continues to operate under severe pressure." The dismal PMI readings for South Africa and its main trade partners were seen as likely to put pressure on the South African Reserve Bank (SARB) to cut interest rates at its policy meeting next week to help stimulate the flagging economy. Standard Chartered's Regional Research Director for Africa Razia Khan commented, "There is no argument now to justify unchanged monetary policy in South Africa, given the extent to which the world has changed ... these are not normal times. When you factor in the worst global slowdown seen in decades ... there is less reason for the [SARB] to keep rates on hold now." (Business Day, December 2, 2008)

Parliament Passes Competition Amendment Act,
Consumer Protection and Companies Bills

¶5. (U) Parliament passed the Competition Amendment Bill, the Companies Bill, and the Consumer Protection Bill in a legislative flurry during the last week of November. The Competition Amendment Bill introduced criminal sanctions against individuals found guilty of causing a firm to engage in price fixing, output restriction, market allocation, or collusive tendering. An offending individual may face up to ten years in prison or be fined R500,000 ($50,000), or both. Minister of Trade and Investment Mandisi Mpahlwa stated, "This severe penalty serves as a signal that cartel activities will not be tolerated, and those involved in this harmful practice will be severely punished." The Consumer Protection Bill sought to

promote an economic environment that supports a culture of consumer rights and responsibilities. The Consumer Protection Bill provides for a controversial system of product liability where any producer, distributor, or supplier would be held liable for any damage in the form of death, injury, loss, or damage to property and economic loss to the consumer or a third party. A National Consumer Commission would be established to investigate consumer complaints, while the National Consumer Tribunal would adjudicate over violations of the Consumer Protection Act. The courts would also adjudicate on all contractual matters, and would confirm consent orders concluded with suppliers. Minister Mpahlwa commented that the bill encourages consumer activism and alternative dispute resolution. The Companies Bill was aimed at overhauling the current Companies Act. Under the QBill was aimed at overhauling the current Companies Act. Under the new Companies Bill, all companies would be required to prepare annual financial statements. Business shareholders would also have to appoint an audit committee as a subcommittee of the board of directors, and demand for a meeting would have to be supported by 10% of the voting rights. The bills will not become effective until President Kgalema Motlanthe signs them. The Department of Trade and Industry expects that all three pieces of legislation would come into force by mid-2010. (Engineering News, November 27, 2008)

SACU Meets to Discuss EPA

¶6. (U) The Southern African Customs Union (SACU) plans to meet with the European Union (EU) in Namibia on December 6 to discuss the SACU-EU economic partnership agreement (EPA). The EU is pushing for the agreement to be signed by January. South African trade officials believe that the draft EPA does not benefit South Africa and that provisions in the document are at odds with some South African government policies. Department of Trade and Industry (DTI) Director General Tshediso Matona said, "The other countries in SACU may not see matters in the same way, and it is understandable because our economy is different. South Africa is the largest economy in the region and in the customs union. It is much more complex and diversified." South Africa's interests will not always coincide with the interests of other SACU members Botswana, Lesotho, Namibia, and Swaziland, Matona observed, and it is not up to South Africa to dictate to the other members which position to take. "Any suggestion that we are a bully is without any foundation," he said.

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Under the trade policy signed by SACU members, no member of the union could enter third-party agreements without all the members being jointly informed and taking part in joint negotiations. Matona commented, "Ideally, there should be a consensus within the union with regard to what stance we take, not only in relation to the EU, but also in regard to negotiations with the World Trade Organization." He added that the EU should respect the region's integration agenda, and should not allow its own interests to upset or fragment the region. SACU has not decided to dissolve itself, Matona insisted and South Africa has not considered withdrawing from the union. (Engineering News, December 3, 2008)

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Freight Transport Threatened By Looming Strikes

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¶7. (U) The supply of food and clothes to retailers could grind to a halt early next year if 60,000 road freight industry workers go on strike. The looming industrial action in the national road freight industry depends on the outcome of the second and final dispute resolution meeting between unions and the Road Freight Association over wages and employment conditions. The first meeting in November ended in deadlock, and the last meeting is likely to take place in the third week of January. The South African Transport and Allied Workers' Union (SATAWU) and other unions that are part of the National Bargaining Council for the Road Freight and Logistics Industry declared the dispute in October. The 60,000 potential strikers include long-distance drivers, loaders, general workers, vehicle guards, and clerks. SATAWU National Sector Coordinator Tabudi Ramakgolo said, "We will now proceed to a second compulsory dispute meeting in terms of the protocol agreement. Once these meetings have taken place and if there is still no agreement, the unions may issue a 48-hour notice with the aim of engaging in an industrial action." SATAWU called on the government to begin regulating the road freight industry, because the current

self-regulation method has failed. Other issues raised by SATAWU include companies' use of labor brokers and sub-contractors. A strike would also affect the transportation of manufacturing parts and other equipment since most commercial goods are transported via road in South Africa due to lack of effective rail transport infrastructure. (Business Times, December 2, 2008)

World Cup Fuel Demands

¶8. (U) Ensuring that parts of South Africa do not run out of fuel during the 2010 FIFA World Cup requires careful management and teamwork, cautioned Engen General Manager for International Business Development Wayne Hartmann. He said supply concerns would persist "until the day of the races actually happens." The Guateng industrial heartland currently receives much of its diesel, petrol, and jet fuel through a pipeline from refineries in Durban. But the pipeline network is reaching its capacity, say liquid-fuels sector experts. State-controlled freight and transport logistics group Transnet is planning to build an R11.2 billion ($1.1 billion) QTransnet is planning to build an R11.2 billion ($1.1 billion) pipeline, including a 544 kilometer trunk line from Durban to Gauteng but it is unlikely to be ready in time to help meet the increased demand that will be sparked by the World Cup - particularly for jet fuel. Hartmann explained that alternative strategies could be employed to resolve the shortage. For example, some aircraft could be refueled at the coast on their way to and from Johannesburg. (Note: A new international airport is being built in Durban, which could provide these services.) (Business Times, November 24, 2008)

GM South Africa Believes Low-Level of Tariffs
Under ADPD Will Threaten Industry

¶9. (U) General Motors South Africa (GMSA) President Steve Koch told the press that the low level of tariff protection against vehicle imports was a long-term threat to South Africa's automotive industry. Koch said import duties on vehicles were currently 29%, which would fall to 25% by 2012 when changes to the Motor Industry Development Program (MIDP) are implemented. Duties will remain at this level when the new Automotive Production and Development Program (APDP) comes into effect in 2013. But Koch emphasized that no country with low-volume markets had duty levels below 35%. For example, India has an annual new vehicle market of 2 million units and a 100% duty on imported vehicles. Brazil has a 3 million unit market and a 35% duty. Koch expects the total South African vehicle market to decline from 614,000 units in 2007 to about 490,000 units this year and 400,000 units in 2009. The level of support to South

Africa's automotive industry as a percentage of revenue had declined from 12% in 2004 to an estimated 9% in 2008, said Koch. He anticipates it falling to 7.6% in 2012, and said the industry would not achieve the objective of doubling vehicle production from 600,000 units this year to 1.2 million in 2012. Koch noted that the support levels in the ADPD fell short of covering the various insufficiencies and cost penalties confronted by original equipment manufacturers in South Africa. "Without higher duty levels, closer to global norms, market prices do not generate adequate returns to support future investment," Koch explained. "As a result, GMSA does not believe the APDP objectives (large export volumes) can be achieved without higher completely built-up duty levels or additional support." Koch's comments were accompanied by press statements that GM is expected to make a decision regarding the sale of the Hummer brand in early 2009. Hummer is GMSA's principal export and South Africa is the only site on the continent that produces the brand. GMSA produces 8,000 Hummers per year for the export market, and 1,200 for the local market. These volumes would not be large enough to qualify for ADPD support. (Business Report and Business Day, December 3, 2008)

COSATU Affiliates Urged to "Invest in ESKOM"

¶10. (U) COSATU President Sdumo Dlamini has asked COSATU affiliates to consider investing in power utility Eskom. The beleaguered state electricity provider needs to raise at least $34 billion to implement its capital expansion program and reduce a critical

electricity shortage. The South African Government has lent Eskom $6 billion and COSATU hopes its affiliates can help make up the shortfall by investing in the company. Affiliates have been asked to invest in ESKOM instead of placing pension fund money with brokerage houses and offshore. Dlamini argued that investing in Eskom will ensure job creation, economic growth, and prevent further electricity price hikes. (Business Day November 28, 2008)

Xstrata-Merafe and Other Ferrochrome
Producers Close More Furnaces

¶11. (U) The world's biggest producer of ferrochrome is temporarily closing more furnaces to bring its total suspension of production to 52% of capacity. The suspensions are in response to weakening prices. Xstrata-Merafe Chrome Venture (Xstrata) announced three weeks ago that it would suspend six furnaces or 29% of capacity because of "short-term demand weakness." Xstrata now says it intends to suspend another five furnaces until market conditions improve. Altogether it has suspended 906,000 tons of annualized production capacity. Company officials said they will monitor market conditions closely, and that there are no plans to retrench any permanent staff. The Xstrata-Merafe Chrome Venture decision follows cutback announcements by all South African producers last month. Second-biggest ferrochrome producer Samancor Chrome plans to shut all of its furnaces for more than two months. International Qshut all of its furnaces for more than two months. International Ferro Metals (IFM) said last week it will suspend production from its ferrochrome furnaces until March. Local ferrochrome producers may have cut back as much as 3 million tons of annual output since the beginning of November. The cutbacks will reduce electricity demand by 1,100 megawatts, or 3% of Eskom's capacity. IFM Managing Director David Kovarsky estimated that the local ferrochrome industry is using one gigawatt less power since the cutbacks. The reduced demand on Eskom to produce electricity is the single bright spot for South Africa, which is the world's biggest source of ferrochrome. IFM plans to continue to supply customers from its stock, but it will suspend new sales in places where ferrochrome market conditions are particularly poor, like China. Hernic Ferrochrome Operations Director Jasper Pieters commented, "It just seems like the market is falling further ... there is no demand. You can't sell anything." Fairfax Analyst John Meyer remarked that orders from the stainless steel industry were likely to recover next year as production resumes, but he does "not expect a rapid return to 2007-08 levels, though fiscal stimulation could see some resumption towards this level of demand. Capacity is available within the stainless steel sector to drive demand ahead of available ferrochrome supply if confidence and finance returns to construction and consumer markets." (Business Day, December 2, 2008)

EIA for the Wild Coast Toll Road
Released for Comment

¶12. (U) Private consulting company CCA Environmental has completed

and released for public comment an environmental impact assessment (EIA) report for the proposed construction of an extension of the N2 freeway along the Wild Coast. The proposed 560 kilometer freeway will be a toll road that runs from the Eastern Cape to Kwa-Zulu Natal. The EIA highlighted the potential impact for economic development and tourism, and considered the potential impact upon air quality, agriculture, land use, noise, and scenery. The public may comment on the EIA until January 9, 2009. CCA Environmental will include the comments in its final Environmental Impact Report. CCA Environmental conducted the EIA for the National Department of Environmental Affairs and Tourism, the Eastern Cape Department of Economic Development and Environmental Affairs and the Kwa-Zulu-Natal Department of Agriculture and Environmental Affairs, all of which would be involved in the project. (Engineering News, December 2, 2008)